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Director of
Central
Intelligence

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National Intelligence Daily (Cable)

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KENYA-ETHIOPIA-SOMALIA: Relations

Kenyan and Ethiopian forces reportedly plan joint military action this week against Somali guerrillas operating along the border; Ethiopian troops are to sweep the area north of the border while Kenyan forces stand by to block guerrillas attempting to flee through Kenya. This operation, larger than similar ones in the past, may be the first significant result of Kenyan President Moi's meeting in Addis Ababa with Ethiopian leader Mengistu last week when the two reaffirmed a long-standing mutual defense agreement. [redacted] 25X1

//Moi--in his first trip to an African country since succeeding to the presidency last August--also signed a new 10-year friendship treaty and a joint communique, both clearly aimed at Somalia, and several additional technical accords. [redacted] 25X1

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Kenya's deep distrust of Somalia's intentions toward its northeastern area, which has a large ethnic Somali population, dominates its foreign policy. Moi has reiterated his predecessor's insistence that nothing short of a public Somali renunciation of any territorial claims in Kenya would be acceptable as a prelude to improving bilateral relations. [redacted] 25X1

Kenya and Ethiopia have little in common but their shared concern over Somali irredentism. Kenya is fully aware of its military weakness and hopes to find Ethiopia a useful ally. [redacted] 25X1

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Somali leaders, in private remarks [redacted] said they were disturbed by the timing of the Moi visit because it undercut recent efforts to encourage a Kenyan-Somali rapprochement. They are also offended by the degree to which the Kenyans aligned themselves with Ethiopian views and Kenya's seeming approval of the Soviet-Cuban presence in Ethiopia. [redacted] 25X1

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UGANDA: Trouble in Capital

The West German Ambassador, who represents US interests in Uganda, reported yesterday that shooting was continuing in Kampala and that power, fuel, and water supplies had been disrupted. Although it is still not clear who is behind the trouble or whether President Amin's position is threatened, the Ambassador is concerned the situation will deteriorate. He may soon recommend implementation of contingency plans for the evacuation of West German and US dependents from Kampala. [redacted]

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EGYPT-YUGOSLAVIA: Aircraft Assistance

//The Egyptians reportedly are turning to Yugoslavia for assistance in maintaining their MIG-21 aircraft. Yugoslavia recently overhauled four Egyptian helicopters, and the Egyptians were pleased with the results. The MIG-21s--the mainstay of Egypt's fighter force--have been severely affected by the virtual cutoff of Soviet-built engines and spare parts. This problem probably was a factor in Egypt's decision to obtain Chinese-produced MIG-19s, an aircraft inferior to the MIG-21. The Egyptians' slipshod maintenance practices, however, will sap the benefits of Yugoslav assistance, as they have in the case of Western assistance.// [redacted] 25X1

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MALTA: Economic Aid

Italy, France, West Germany, and Libya have proposed a $40 million - $50 million aid package for Malta. Only $5 million each from the Libyans and the Italians would be direct budgetary support. The rest would take the form of grants and loans, including $10 million offered by the Libyans to continue the favorable oil price arrangements already in effect. The total might even drop if current friction between Malta and West Germany persists. This combined offer is far less than what Prime Minister Mintoff has demanded, but by consulting among themselves the four donors have reduced Mintoff's ability to play one off against the others. Mintoff has few options except to threaten to turn to the Soviets--which would be risky both for his domestic political position and for his independent foreign policy.

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CONGO: President's Removal

Based on an announcement yesterday from the Congolese party committee meeting, it appears that President Yhomby Opango, a northerner, has been removed from power, presumably by southern opponents. As an interim measure the committee established a four-member presidium and placed day-to-day government operations in the hands of the Prime Minister, presumably Sylvain Goma--a southerner--until a special party congress late next month. The status of Yhomby Opango, who has considerable support among the military, is not clear. Brazzaville appears to be calm.

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SPECIAL ANALYSIS

IRAN: Revenue Needs and Oil Output

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Regardless of who eventually controls Iran, any Iranian Government will be forced to slash public spending as well as resume sizable oil exports to avoid a crippling budgetary crunch. Oil exports, which had been providing more than two-thirds of government revenues, have been cut off since late December, and difficult political, labor, and technical problems must be tackled before production and exports recover substantially. The reduced level of oil production and the need to bolster domestic revenue are likely to make future Iranian Governments favor higher oil prices. [redacted] 25X1

Iran would need to produce some 4.5 million barrels of oil per day to meet even sharply scaled-down government expenditures without resorting to massive budget deficits or currency devaluations. If a government were willing to tolerate substantially accelerated inflation, an austere budget might be met by a production level of 3.5 million barrels per day. Any lower level of output would demand some combination of massive inflation, severe austerity involving wage rollbacks and layoffs, and major drawdowns of international assets. [redacted] 25X1

Government Expenditures

Current expenditures, budgeted at $25 billion in the 1978 fiscal year, will be difficult to cut in the 1979 fiscal year. An estimated 50 percent of the 1978 expenditures were budgeted for personnel. Pay raises, plus increases in fringe benefits and pension payments granted to government civilian and military employees in September, are estimated to have added 22 percent to budgeted personnel costs. A further pay raise of 12.5 percent is scheduled at the start of the new fiscal year on 21 March. Major cuts in personnel costs would require rollbacks of recently granted benefits or sizable reductions of civil servants and military personnel. [redacted] 25X1

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Spending in other categories could be trimmed with less political fallout. Perhaps as much as $3 billion could be slashed from the military and police budgets. The military has already recognized the need for cutbacks and has submitted a draft memorandum of understanding to cancel more than $6 billion worth of US military goods and services. Another $2 billion could probably be pared from the other ministries even while maintaining social services and agricultural spending. [redacted] 25X1

The government has much more flexibility in cutting capital spending. Investment expenditures, including the nuclear power program, have already been cut back. Other projects that probably will be cut include the highway and railroad projects between Qom and Bandar Shahpur, and the new Tehran airport and metro system. Government investment abroad, which has been running at about $1 billion a year out of general expenditures, is likely to be eliminated. Altogether, at least two-thirds of 1978 budgeted capital expenditures of $17.5 billion could probably be slashed. [redacted]

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Revenues

Non-oil revenue in recent years has accounted for a quarter of total government receipts. Non-oil revenues, including those from natural gas sales, are projected to total no more than $8 billion. Taxes are the major non-oil revenue source. The personal income tax cut of last September is likely to reduce revenue from this source by 50 percent once tax collection resumes. After the backlog of goods in port gets worked off, receipts from taxes on international trade will fall as well. With the economic outlook uncertain, consumer spending and the resulting domestic consumption taxes are not likely to increase. [redacted]

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Three-quarters of the government's revenue comes from oil. The government would receive an average of $13.79 for each barrel of oil in the next fiscal year if the production cost allowance of 30 cents a barrel is maintained and the consortium profit of 22 cents a barrel were eliminated. At this price, the government would need to export on the order of 4 million barrels per day to balance the postulated budget without a currency devaluation. An additional 500,000 barrels per day would be needed for domestic needs. [redacted] 25X1

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Options

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If the government were unable or unwilling to produce 4.5 million barrels per day, it would have to choose among various tradeoffs in terms of unemployment, inflation, and foreign exchange costs: [redacted]

-- Further reductions in public expenditures. [redacted]

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-- Devaluation of the rial. This would increase the rial value of a given amount of oil income but would also increase the cost of imported goods and hence feed inflation. [redacted] 25X1

-- Budget deficits that would probably bring on a severe acceleration in inflation. [redacted]

Iran probably could finance at most a $5-billion budget deficit without sparking a crippling inflationary spiral. In these circumstances, Iran would need some $15 billion in revenues from oil exports, implying oil production of almost 3.5 million barrels per day. This would require a decision by an Iranian Government to increase oil exports by about 3 million barrels per day. 25X1

25X1 [redacted]

Short-Term Outlook

With about a two-month lag in oil revenues, government income has been declining since the downturn in oil exports in October. The government is reported to be meeting its payroll obligations, partially through printing rials. For the 12 months ending 22 October, currency in circulation was already up 50 percent. If the government wishes to retain its foreign exchange reserves--reportedly around $10 billion with an estimated $3 billion in exchange arrears--it probably will have to print even more currency. [redacted]

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